



# ADVISOR



TEACHERS, EMPLOYEES, PUBLIC, STATE POLICE AND JUDICIAL

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SERVING OVER 329,000 MEMBERS

January 2010

## Actuary Reports to the ERS and TRS Boards

“IT COULD HAVE BEEN WORSE”

By David G. Bronner

**M**y father would always tell me “It could have been worse” when I fell off my bike, smashed up my car, or for any problem I was dealing with at the time. If you think about it, what a wonderful message to get you back on track with positive thoughts and positive actions to help solve your problems.

RSA’s longtime actuary, Ed MacDonald of Cavanaugh MacDonald Consulting, made some important points to the TRS and ERS Boards last month. First, there are a few states in better financial shape and several in worse financial shape than the RSA. This puts the Employees’ (ERS) and Teachers’ (TRS) Retirement Systems in the “middle of the pack” in retirement funding and investments. Second, most states are considering changes to retirement requirements for new employees because there are few

legal options to change current employee retirement requirements. Third, and most importantly, costs for the existing retirement systems will increase substantially every year to 2018. The funding ratio (assets as a percentage of liabilities) will continue to fall until 2017. In order to prevent large fluctuations in any given year, gains and losses in investments are spread over a five-year period at a rate of 20% per year. Obviously, any future good or bad economic news will affect these numbers.

For short-term relief, the ERS and TRS Boards approved the RSA recommendation to the Governor and Legislature to move from a 20-year funding period to a 30-year funding period, which most states already use. If approved by the Legislature, this change will give the retirement systems breathing room for 2011 because funding will be at the same

level as 2010. Even doing that, the state dollar costs and funding ratio charts still look difficult through 2018. In comparison, Social Security has “zero” funding!

The RSA staff believes that tackling the funding problems of the ERS and TRS retirement systems and the health insurance program (PEEHIP) in the year prior to the statewide election will result in no progress. If we can solve the immediate funding shortfall with PEEHIP in this Legislative session, the retirement systems’ funding can survive for at least a year while various options are considered. The next two years are going to be the most difficult that I have witnessed. Our next Governor and Legislature will have the ultimate challenge of continuing the past 15 years of exceptional progress. ■

### EMPLOYER FUNDING WITH 30 YEAR AMORTIZATION

Teachers’ Retirement System

Fiscal Year	Employer rate as % Of payroll	Employer Cost In Millions	Funding Ratio
2011	13.38%	842,000	77.65%
2012	13.38%	880,000	72.70%
2013	14.28%	982,000	67.05%
2014	15.45%	1,110,000	62.01%
2015	16.78%	1,260,000	56.19%
2016	17.27%	1,355,000	54.09%
2017	17.16%	1,407,000	54.61%
2018	16.97%	1,454,000	55.47%

Employees’ Retirement System

Fiscal Year	Employer rate as % Of payroll	Employer Cost In Millions	Funding Ratio
2011	12.94%	198,000	74.27%
2012	12.94%	207,000	69.72%
2013	13.36%	223,000	64.58%
2014	14.37%	251,000	60.06%
2015	15.57%	284,000	54.74%
2016	15.97%	305,000	52.90%
2017	15.84%	316,000	53.38%
2018	15.64%	326,000	54.15%

# Editorial: *The Birmingham News*

**THE ISSUE** Alabama doesn't begin to fully fund critical education programs, such as a reading initiative that makes a big difference in student achievement.

When the University of Alabama hired Nick Saban three years ago and agreed to pay him \$4 million a year to coach football, UA officials had some lofty expectations: that he would return what had become a middlin' football program to its greatest heights, and it would compete for national championships year in and year out.

Saban has everything he needs to make that happen: a hefty recruiting budget, well-paid assistants, great facilities and strong support from administration, alumni and fans, for starters.

But what if UA had hired a coach and paid him less than most other Division I football coaches, with very little money to hire good assistants and recruit? Would Alabama have won its past 23 regular-season games and be contending for a national championship for a second straight year?

Of course not.

The moral to this little football story is simple, really, and hardly earth-shattering: You get what you pay for.

It's true of college football coaches, just as it's true of almost everything in life, including public education. Alabama, which ranks 50th in the country in the amount it collects per person in state and local taxes, doesn't do much better in the amount it spends per pupil in K-12 schools. In 2007, the latest year available, the state ranked 41st, spending \$9,509 per pupil, according to the U.S.

Census Bureau. That compares to a national average of \$11,496. That difference of almost \$2,000 per pupil means Alabama has an average of \$39,740 less to spend in a classroom of 20 students.

Those were the good old days. For the 2010 fiscal year that began Oct. 1, expected spending in Alabama's Education Trust Fund, which pays for K-12 schools, colleges and universities, is about \$700 million lower than in 2007.

It is true that throwing money at a problem isn't a solution. But money does pay for salaries and benefits, books, computers, school construction, electricity, fuel, teacher professional development and, maybe most important, one of the nation's most successful reading programs. That's because reading is key to every other kind of learning. The good news: Alabama doesn't have to look far to find it. It's already here in the form of the acclaimed Alabama Reading Initiative. The bad news: Alabama can't come close to fully funding the initiative, as a package of stories in *The News* made clear.

It took more than a decade of slowly growing the program to be able to fund reading initiative programs in all K-3 school by the 2007 fiscal year. Since then, as tax collections have collapsed and led to spending cuts in schools, it has been a struggle to maintain. Meanwhile, most other schools, particularly high schools do without.

So it shouldn't be a surprise that a *News* analysis of 367 high schools shows that 130 high schools either failed reading or were classified as "borderline" failing, based on 11th-graders' performance on the Alabama High School Graduation Exam. That includes 32 high schools in the Birmingham area that failed or bor-

derline failed. Few of the schools that failed or borderline failed have the reading initiative, and most high school students in Alabama did not have the reading initiative when they were in elementary school.

State educators estimate at least half of students are "struggling readers," meaning they can't read on grade level. It is especially shameful that we—Alabamians—are willing to settle for this, because we know how to change those numbers. We saw the payoff in 2007 from having the reading initiative in even a limited number of schools. That year, Alabama fourth-graders had the nation's largest gain in reading on the National Assessment of Educational Progress test, often referred to as the nation's report card. But Alabama needs the reading initiative in all 1,538 public schools, especially in middle and high schools where test scores are flat and many children missed reading initiative instruction the first time around.

As a state, we are only as good as our people. When we settle for less than the best when it comes to investing in their education, all of us suffer. Children who can't read are more likely to drop out of school, to live in poverty, to be unemployed, to turn to a life of crime. The cost to the state for dealing with all that—from lost wages to spending more on police, courts, prisons, welfare programs and the like—far outweighs what investing on the front end would cost.

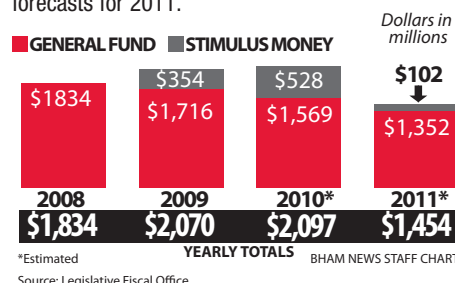
When a college football program doesn't invest wisely in a coach, it will lose more than its share of football games for that coach's tenure. When a state doesn't invest wisely in its children, it will lose more than its share of them, for life. ■

## Is Our Future At Risk?

The Legislature will start to draw up the 2011 budget this month, with 30+% less revenue for all non-education functions of state government. Our great progress of the last 15 years is at risk without revenue!

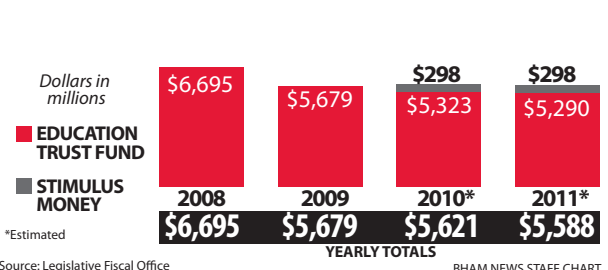
### GENERAL FUND SPENDING

Selected state spending in fiscal years 2008 through 2010, with the Legislative Fiscal Office's forecasts for 2011.



### EDUCATION FUND SPENDING

Selected state spending in fiscal years 2008 through 2010 with the Legislative Fiscal Office's forecast for 2011.



# RTJ Spas top Renaissance and Marriott lists

Source: Alabama Department of Tourism

**T**he top three Renaissance resort hotel spas for guest satisfaction in the nation are all in Alabama and are all part of the RTJ Spa Trail. The Renaissance Montgomery was ranked number one in the nation followed by the Spa at the Battle House in Mobile and the Spa at Ross Bridge outside of Birmingham. Renaissance has 15 spas in North America. The Spa at the Grand Hotel in Point Clear ranked number one out of the 28 Marriott spas in North America and is the top Marriott spa globally. The Spa at the Shoals in Florence ranks 5th on the Marriott list for guest satisfaction.

For both Marriott and Renaissance hotels, Marriott International uses a third-party company specializing in guest satisfaction to rate all areas of the hotels, including spas. These results are based on data collected from Jan. 1 through Nov. 27, 2009. Each of the Alabama spas highlighted are in four diamond hotels that are a part of the Resort Collection on the Robert Trent Jones (RTJ) Golf Trail. "We pride ourselves on our very high level of guest service," said Susie Marquez, director of the RTJ Spa Trail. "When a guest schedules an appointment with us, we don't just treat it as a massage or a facial. We try to create the optimal spa experience from beginning to end. Having the top three Renaissance spas and two of the top five in Marriott, including the top spa globally, is a real honor." ■



## RENAISSANCE SPA RANKINGS:

1. Montgomery Renaissance – Montgomery, Alabama\*
2. The Battle House, a Renaissance Hotel & Spa – Mobile, Alabama\*
3. Renaissance Ross Bridge Golf Resort & Spa – Birmingham, Alabama\*
4. The Del Monte Lodge, A Renaissance Hotel & Spa – Pittsford, New York
5. Renaissance Glendale Hotel & Spa – Glendale, Arizona

## MARRIOTT SPA RANKINGS:

1. Grand Hotel Marriott Resort, Golf Club & Spa – Point Clear, Alabama\*
2. Princeton Marriott Hotel and Conference Center – Princeton, New Jersey
3. Hilton Head Marriott Resort & Spa – Hilton Head, South Carolina
4. Wentworth by the Sea, A Marriott Hotel & Spa – New Castle, New Hampshire
5. (tie) Sawgrass Marriott Resort & Spa – Ponte Vedra Beach, Florida
5. (tie) Marriott Shoals Hotel & Spa – Florence, Alabama\*

\* Part of the RTJ Spa Trail in Alabama. For more information on the RTJ Spa Trail please see [www.pchresorts.com](http://www.pchresorts.com)

## TRS Board Members Re-elected



Dr. Paul R. Hubbert administers the Oath of Office to re-elected board members Ms. Judy Rigdon, Ms. Sharon P. Saxon, and Mr. Danny Stallings.

## New ERS Board Members



Mr. John H. Wilkerson, Jr. administers the Oath of Office to new ERS board members Mr. Steven Williams and Mr. James H. Rowell.



## WANT TO HELP? A FREE Car Tag

Tired of that worn-out dealer tag on the front of your car? Would you like to help the RSA and our Alabama Tourist Department advertise "Alabama's Robert Trent Jones Golf Trail" on your front bumper? If so, call to request a tag at 334-517-7000, or 877-517-0020, or write:

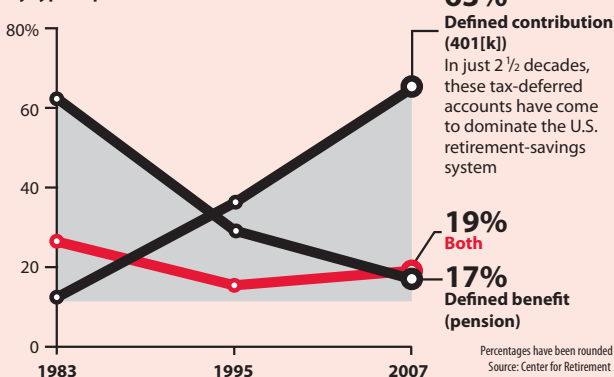
Tag, P.O. Box 302150  
Montgomery, AL 36130-2150

## The 401(k)

### Leaving the Defined Pension in the Past

The days of employer-funded pensions, and their federally guaranteed payouts, are declining

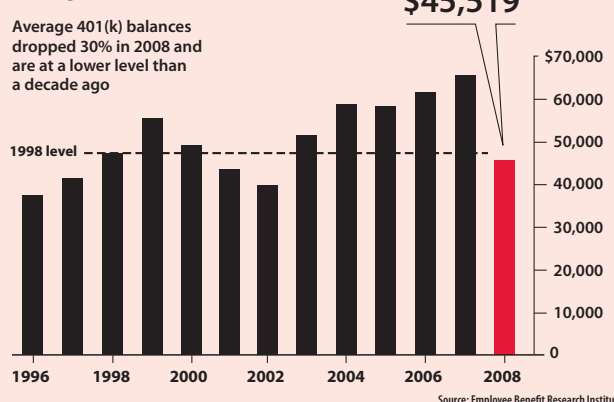
Workers' retirement savings by type of plan



### A Shrinking Retirement Nest Egg

Tough times in the stock market have left the average retirement-account holder worse off than 10 years ago

#### Average 401(k) balances



ENJOY YOUR WINTER  
A Special Deal  
FOR RSA MEMBERS

**The Battle House,**

**A Renaissance Hotel – Mobile – \$89**

- Jan. 1–2, 12, 17–18 • Feb. 4, 9–10, 21–24
- Mar. 1–3, 6–10, 14–18, 21–22, 28–31

**The Renaissance Riverview Plaza – Mobile – \$79**

- Jan. 1–2, 12, 17–18 • Feb. 4, 9–10, 21–24
- Mar. 1–3, 6–10, 14–18, 21–22, 28–31

**Marriott Grand – \$89** plus a 15% resort fee

- Jan. 16–26 • Feb. 1–9, 17–18, 21–25
- Mar. 7–18

**Marriott Grand – RSA Golf Package – \$169**

Ask for code – LOCD

Includes: Deluxe Room, One Round of Golf for Two People.

Call for Tee Times after booking package

- Jan. 6–26 • Feb. 1–9, 17–18, 21–25 • Mar. 7–18

**Marriott Shoals – Florence – \$79**

- Jan. 1–7, 10–12, 15–18, 23–30
- Feb. 1–4, 7–9, 15–16, 21–28
- Mar. 4–5, 10–14, 21–22, 28–31

**Renaissance Ross Bridge – Hoover – \$89**

- Jan. 1–19, 22–31 • Feb. 7–8, 14–15, 28
- Mar. 1, 7–8, 14, 21, 28–29

**Opelika Marriott – \$79**

- Jan. 1–14, 16–30
- Feb. 5–10, 12–17, 19–23, 27–28
- Mar. 1–7, 11–27, 31

**Prattville Marriott – \$79**

- Jan. 1–7, 10–11, 14–21, 24–27, 29–31
- Feb. 1, 3–16, 20–22, 28
- Mar. 1–19, 28–30

**Renaissance Montgomery – \$89**

- Jan. 1–7, 10, 14, 24–25, 28–31
- Feb. 1, 7, 11–14, 28
- Mar. 1, 4–5, 7, 11–12, 21, 25–27

**RSA Spa Package – \$159**

Ask for code – LOCD Includes Deluxe Room

- Jan. 5–7, 14 • Feb. Not available • Mar. 4

Rates available the 1st of the month and are not applicable to groups.

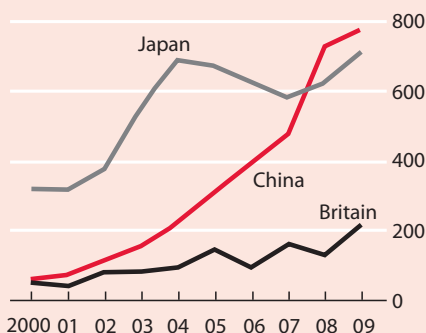
Code: RABM, 800-228-9290

Internet promo code: R2A on [marriott.com](http://marriott.com)

Book Online and Save RSA \$4.

**Treasury trove**

Biggest holders of US Treasury securities, \$bn



Source: US Treasury

## TRS Board Election Results

Congratulations to Teresa Harbison (Teacher Position No. 1), Robby Smith (Support Personnel Position No. 1), Ricky Whaley (Teacher Position No. 2), Susan Brown (Postsecondary Position), and Sarah Swindle (Retired Position No. 1) who were re-elected to the Teachers' Retirement System Board of Control. Their new terms of office will begin on July 1, 2010.

## ERS Board Election Results

Due to the vacancy in the Active Local Position No. 1 on the Employees' Retirement System Board of Control, a special election was held. Congratulations to Steven Williams of Robertsdale who was elected to fulfill the term of office, which expires on September 30, 2010.



## The ADVISOR

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**PEEHIP**

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**Teachers' Retirement**

Donald L. Yancey

The Retirement Systems of Alabama

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RSA Web site

[www.rsa-al.gov](http://www.rsa-al.gov)

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Alabama has the top Marriott and Renaissance SPAs in North America, we also have the top three Marriott GOLF locations for guest satisfaction: 1) Marriott at Capitol Hill in Prattville, 2) Marriott Shoals in Florence and 3) Marriott at Grand National in Auburn/Opelika. All part of the RTJ Golf Trail.